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106TH CONGRESS
1ST SESSION

S. 21

To reduce social security payroll taxes, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 19, 1999

Mr. MOYNIHAN (for himself and Mr. KERREY) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To reduce social security payroll taxes, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Social Security Solvency Act of 1999".

(b) TABLE OF CONTENTS.—The table of contents of this Act is as follows:

Sec. 1. Short title; table of contents.
Sec. 2. Modification of FICA rates to provide pay-as-you-go financing of social security.
Sec. 3. Voluntary investment of payroll tax cut by employees.
Sec. 4. Increase of social security wage base.
Sec. 5. Cost-of-living adjustments.
Sec. 6. Tax treatment of social security payments.
Sec. 7. Coverage of newly hired State and local employees.

Sec. 8. Increase in length of computation period from 35 to 38 years.
Sec. 9. Modification of PIA factors to reflect changes in life expectancy.
Sec. 10. Elimination of earnings test for individuals who have attained early retirement age.
Sec. 11. Social security kidsave accounts.

SEC. 2. MODIFICATION OF FICA RATES TO PROVIDE PAY-AS-YOU-GO FINANCING OF SOCIAL SECURITY.

(a) IN GENERAL.—

(1) TAX ON EMPLOYEES.—Section 3101(a) of the Internal Revenue Code of 1986 (relating to tax on employees) is amended to read as follows:

"(a) OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.—

"(1) IN GENERAL.—In addition to other taxes, there is hereby imposed on the income of every individual a tax equal to the applicable percentage of the wages (as defined in section 3121(a)) received by him with respect to employment (as defined in section 3121(b)).

"(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be the percentage set forth in the following table:

"In the case wages received during:	**The applicable percentage shall be:**
2000 through 2029	5.2
2030 through 2034	6.2
2035 through 2049	6.45
2050 through 2059	6.65
2060 or thereafter	6.85 ."

(2) TAX ON EMPLOYERS.—Section 3111(a) of such Code (relating to tax on employers) is amended to read as follows:

"(a) OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.—

"(1) IN GENERAL.—In addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the applicable percentage of the wages (as defined in section 3121(a)) paid by him with respect to employment (as defined in section 3121(b)).

"(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be the percentage set forth in the following table:

"In the case wages paid during:	**The applicable percentage shall be:**
2000 and 2001	6.2
2002 through 2029	5.2
2030 through 2034	6.2
2035 through 2049	6.45
2050 through 2059	6.65
2060 or thereafter	6.85 ."

(3) SELF-EMPLOYMENT TAX.—Section 1401(a) of such Code (relating to tax on self-employment income) is amended to read as follows:

"(a) OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.—

"(1) IN GENERAL.—In addition to other taxes, there is hereby imposed for each taxable year, on the

self-employment income of every individual, a tax equal to the applicable percentage of the amount of the self-employment income for such taxable year.

"(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be the percentage set forth in the following table:

"In the case of a taxable year

Beginning after:	And before:	The applicable percentage is:
December 31, 1999	January 1, 2002	11.4
December 31, 2001	January 1, 2030	10.4
December 31, 2029	January 1, 2035	12.4
December 31, 2034	January 1, 2050	12.9
December 31, 2049	January 1, 2060	13.3
December 31, 2059		13.7 ."

(4) EFFECTIVE DATES.—

(A) EMPLOYEES AND EMPLOYERS.—The amendments made by paragraphs (1) and (2) apply to remuneration paid after December 31, 1999.

(B) SELF-EMPLOYED INDIVIDUALS.—The amendment made by paragraph (3) applies to taxable years beginning after December 31, 1999.

(b) REALLOCATION OF EMPLOYMENT TAXES.—

(1) REALLOCATION OF TAX ON EMPLOYEES AND EMPLOYERS.—Section 201(b)(1) of the Social Security Act (42 U.S.C. 401(b)(1)) is amended by

striking "(Q) 1.70 per centum of the wages (as so defined) paid after December 31, 1996, and before January 1, 2000, and so reported, and (R) 1.80 per centum of the wages (as so defined) paid after December 31, 1999, and so reported" and inserting "(Q) 1.70 per centum of the wages (as so defined) paid after December 31, 1996, and before January 1, 2000, and so reported, (R) 1.80 per centum of the wages (as so defined) paid after December 31, 1999, and before January 1, 2030, and so reported, (S) 2.15 per centum of the wages (as so defined) paid after December 31, 2029, and before January 1, 2035, and so reported, (T) 2.23 per centum of the wages (as so defined) paid after December 31, 2034, and before January 1, 2050, and so reported, (U) 2.30 per centum of the wages (as so defined) paid after December 31, 2049, and before January 1, 2060, and so reported, and (V) 2.39 per centum of the wages (as so defined) paid after December 31, 2059, and so reported".

(2) REALLOCATION OF TAX ON SELF-EMPLOYMENT INCOME.—Section 201(b)(2) of such Act (42 U.S.C. 401(b)(2)) is amended by striking "(Q) 1.70 per centum of self-employment income (as so defined) so reported for any taxable year beginning

after December 31, 1996, and before January 1, 2000, and (R) 1.80 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1999" and inserting "(Q) 1.70 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1996, and before January 1, 2000, (R) 1.80 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1999, and before January 1, 2030, (S) 2.15 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2029, and before January 1, 2035, (T) 2.23 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2034, and before January 1, 2050, (U) 2.30 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2049, and before January 1, 2060, and (V) 2.39 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2059".

(c) FUTURE RATES AND ALLOCATION BETWEEN TRUST FUNDS PROPOSED BY BOARD OF TRUSTEES FOR LEGISLATIVE ACTION.—

(1) IN GENERAL.—Section 201(c) of the Social Security Act (42 U.S.C. 401(c)) is amended in the matter following paragraph (5) by striking "(as defined by the Board of Trustees)." and inserting "(as defined by the Board of Trustees. If such finding shows that the combined Trust Funds are not in close actuarial balance (as so defined), then such report (beginning in April 2001) shall include a legislative recommendation by the Board of Trustees specifying new rates of tax under sections 3101(a), 3111(a), and 1401(a) of the Internal Revenue Code of 1986, and the allocation of those rates between the Trust Funds necessary in order to restore the combined Trust Funds and each Trust Fund to actuarial balance. If such finding shows that the combined Trust Funds are in close actuarial balance (as so defined), but that 1 of the Trust Funds is not in close actuarial balance, then such report (beginning in April 2001) shall include a legislative recommendation by the Board of Trustees specifying a new allocation of such rates of tax between the Trust Funds, so that each Trust Fund is in close

actuarial balance. Such recommendation shall be considered by Congress under procedures described in subsection (n)).".

(2) FAST-TRACK CONSIDERATION OF LEGISLATIVE RECOMMENDATIONS.—Section 201 of such Act (42 U.S.C. 401) is amended by adding at the end the following new subsection:

"(n)(1) Any legislative recommendation included in the report provided for in subsection (c) shall—

"(A) not later than 3 days after the Board of Trustees submits such report, be introduced (by request) in the House of Representatives by the Majority Leader of the House and be introduced (by request) in the Senate by the Majority Leader of the Senate; and

"(B) be given expedited consideration under the same provisions and in the same way, subject to paragraph (2), as a joint resolution under section 2908 of the Defense Base Closure and Realignment Act of 1990 (10 U.S.C. 2678 note).

"(2) For purposes of applying paragraph (1) with respect to such provisions, the following rules shall apply:

"(A) Section 2908(a) of the Defense Base Closure and Realignment Act of 1990 (10 U.S.C. 2678 note) shall not apply.

"(B) Any reference to the resolution described in subsection (a) shall be deemed to be a reference to the legislative recommendation submitted under subsection (c) of this Act.

"(C) Any reference to the Committee on National Security of the House of Representatives shall be deemed to be a reference to the Committee on Ways and Means of the House of Representatives and any reference to the Committee on Armed Services of the Senate shall be deemed to be a reference to the Committee on Finance of the Senate.

"(D) Any reference to the date on which the President transmits a report shall be deemed to be a reference to the date on which the recommendation is submitted under subsection (c).".

(d) CONFORMING AMENDMENTS TO FERS TO PROTECT PAYROLL TAX CUT.—The table contained in section 8422(a)(3) of title 5, United States Code, is amended—

(1) by striking "7" the second place it appears and inserting "6";

(2) by striking "7.4" and inserting "6.4";

(3) by striking "7.5" the first, third, fifth, and seventh places it appears and inserting "6.5";

(4) by striking "7.9" each place it appears and inserting "6.9"; and

(5) by striking "8" each place it appears and inserting "7".

SEC. 3. VOLUNTARY INVESTMENT OF PAYROLL TAX CUT BY EMPLOYEES.

(a) VOLUNTARY INVESTMENT OF PAYROLL TAX CUT.—

(1) IN GENERAL.—Title II of the Social Security Act (42 U.S.C. 401 et seq.) is amended—

(A) by inserting before section 201 the following:

"PART A—INSURANCE BENEFITS";

and

(B) by adding at the end the following:

"PART B—VOLUNTARY INVESTMENT ACCOUNTS

"EMPLOYEE ELECTION AND DESIGNATION OF VOLUNTARY INVESTMENT ACCOUNT UNDER PAYROLL DEDUCTION PLAN

"SEC. 251. (a) IN GENERAL.—An individual who is an employee of a covered employer may elect to participate in the employer's voluntary investment account payroll deduction plan either—

"(1) not later than 10 business days after the individual becomes an employee of the employer, or

"(2) during any open enrollment period.

The Commissioner shall by regulation provide for at least 1 open enrollment period annually.

"(b) PERIOD OF ELECTION.—

"(1) TIME ELECTION TAKES EFFECT.—An election under subsection (a) shall take effect with respect to the first pay period beginning more than 14 days after the date of the election.

"(2) TERMINATION.—An election under subsection (a) shall terminate—

"(A) upon the termination of employment of the employee of the covered employer, or

"(B) with respect to pay periods beginning more than 14 days after the employee terminates such election.

"(c) DESIGNATION OF VOLUNTARY INVESTMENT ACCOUNT.—

"(1) INITIAL ELECTION.—An employee shall, at the time an election is made under subsection (a), designate the voluntary investment account to which voluntary investment account contributions on behalf of the employee are to be deposited.

"(2) CHANGES.—The Commissioner shall by regulation provide the time and manner by which an employee or a person described in section 254(d) on behalf of such employee may—

"(A) designate another voluntary investment account to which contributions are to be deposited, and

"(B) transfer amounts from one such account to another.

"(d) FORM OF ELECTIONS.—Elections under this section shall be made—

"(1) on W–4 forms (or any successor forms), or

"(2) in such other manner as the Commissioner may prescribe in order to ensure ease of administration and reductions in burdens on employers.

"VOLUNTARY INVESTMENT ACCOUNT PAYROLL DEDUCTION PLANS

"SEC. 252. (a) IN GENERAL.—Each person who is a covered employer for a calendar year shall have in effect a voluntary investment account payroll deduction plan for such calendar year for such person's electing employees.

"(b) VOLUNTARY INVESTMENT ACCOUNT PAYROLL DEDUCTION PLANS.—For purposes of this part, the term 'voluntary investment account payroll deduction plan' means a written plan of an employer—

"(1) which applies only with respect to wages of any employee who elects to become an electing employee in accordance with section 251,

"(2) under which the voluntary investment account contributions under section 3101(a) of the In-

ternal Revenue Code of 1986 will be deducted from an electing employee's wages and, together with such contributions under section 3111(a) of such Code on behalf of such employee, will be paid to the Social Security Administration for deposit in 1 or more voluntary investment accounts designated by such employee in accordance with section 251,

"(3) under which the employer is required to pay the amount so contributed with respect to the specified voluntary investment account of the electing employee within the same time period as other taxes under sections 3101 and 3111 with respect to the wages of such employee,

"(4) under which the employer receives no compensation for the cost of administering such plan, and

"(5) under which the employer does not make any endorsement with respect to any voluntary investment account.

"(c) PENALTIES FOR FAILURE TO ESTABLISH VOLUNTARY INVESTMENT ACCOUNT PAYROLL DEDUCTION PLAN.—

"(1) IN GENERAL.—Any covered employer who fails to meet the requirements of this section for any

calendar year shall be subject to a civil penalty of not to exceed the greater of—

"(A) $2,500, or

"(B) $100 for each electing employee of such employer as of the beginning of such calendar year.

"(2) RULES FOR APPLICATION OF SUBSECTION.—

"(A) PENALTIES ASSESSED BY COMMISSIONER.—Any civil penalty assessed by this subsection shall be imposed by the Commissioner of Social Security and collected in a civil action.

"(B) COMPROMISES.—The Commissioner may compromise the amount of any civil penalty imposed by this subsection.

"(C) AUTHORITY TO WAIVE PENALTY IN CERTAIN CASES.—The Commissioner may waive the application of this subsection with respect to any failure if the Commissioner determines that such failure is due to reasonable cause and not to intentional disregard of rules and regulations.

"PARTICIPATION BY SELF-EMPLOYED INDIVIDUALS

"SEC. 253. An individual shall make an election to become an electing self-employed individual, designate a

voluntary investment account, and have in effect a voluntary investment account payroll deduction plan under rules similar to the rules under sections 251 and 252.

"DEFINITIONS AND SPECIAL RULES

"SEC. 254. (a) VOLUNTARY INVESTMENT ACCOUNT.—For purposes of this part—

"(1) a voluntary investment account described in this paragraph is a voluntary investment account in the Voluntary Investment Fund (established under section 255),

"(2) a voluntary investment account described in this paragraph is an individual retirement plan (as defined in section 7701(a)(37) of the Internal Revenue Code of 1986), other than a Roth IRA (as defined in section 408A(b) of such Code), which is designated by the electing employee as a voluntary investment account (in such manner as the Secretary of the Treasury may prescribe) and which is administered or issued by a bank or other person referred to in section 408(a)(2) of such Code, and

"(3) a voluntary investment account described in this paragraph is a KidSave Account (as described in paragraph (1) or (2) of section 262(a)) of the electing employee, which is designated by the electing employee as a voluntary investment account

(in such manner as the Secretary of the Treasury may prescribe).

"(b) TREATMENT OF ACCOUNTS.—

"(1) IN GENERAL.—Except as provided in paragraph (2)—

"(A) any voluntary investment account described in paragraph (1) of subsection (a) shall be treated in the same manner as an account in the Thrift Savings Fund under subchapter III of chapter 84 of title 5, United States Code,

"(B) any voluntary investment account described in paragraph (2) of subsection (a) shall be treated in the same manner as an individual retirement plan (as so defined), and

"(C) any voluntary investment account described in paragraph (3) of subsection (a) shall be treated in the same manner as the designated KidSave Account would have been treated under section 262(b).

"(2) EXCEPTIONS.—

"(A) CONTRIBUTION LIMIT.—The aggregate amount of contributions for any taxable year to all voluntary investment accounts of an electing employee shall not exceed the aggregate amount of contributions made pursuant to sec-

tions 3101(a)(3), 3111(a)(3), and 1401(a)(3) of the Internal Revenue Code of 1986 and paid pursuant to section 252 or 253 on behalf of such employee.

"(B) NO DEDUCTION ALLOWED.—No deduction shall be allowed under section 219 of the Internal Revenue Code of 1986 for a contribution to a voluntary investment account.

"(C) ROLLOVER CONTRIBUTIONS.—No rollover contribution may be made to a voluntary investment account unless it is from another voluntary investment account or a KidSave Account (as described in paragraph (1) or (2) of section 262(a)). A rollover described in the preceding sentence shall not be taken into account for purposes of subparagraph (A).

"(D) DISTRIBUTIONS ALLOWED TO SOCIAL SECURITY BENEFICIARIES.—Notwithstanding any other provision of law, distributions may only be made from a voluntary investment account of an electing employee on or after the earlier of—

"(i) the date on which the employee begins receiving benefits under this title, or

"(ii) the date of the employee's death.

"(c) OTHER DEFINITIONS.—For purposes of this part—

"(1) COVERED EMPLOYER.—The term 'covered employer' means, for any calendar year, any person on whom an excise tax is imposed under section 3111 of the Internal Revenue Code of 1986 with respect to having an individual in the person's employ to whom wages are paid by such person during such calendar year.

"(2) ELECTING EMPLOYEE.—The term 'electing employee' means an individual with respect to whom an election under section 251 is in effect.

"(3) ELECTING SELF-EMPLOYED INDIVIDUAL.—The term 'electing self-employed individual' means an individual with respect to whom an election under section 253 is in effect.

"(d) TREATMENT OF INCOMPETENT INDIVIDUALS.—Any designation under section 251(c)(2) to be made by an individual mentally incompetent or under other legal disability may be made by the person who is constituted guardian or other fiduciary by the law of the State of residence of the individual or is otherwise legally vested with the care of the individual or his estate. Payment under this part due an individual mentally incompetent or under

other legal disability may be made to the person who is constituted guardian or other fiduciary by the law of the State of residence of the claimant or is otherwise legally vested with the care of the claimant or his estate. In any case in which a guardian or other fiduciary of the individual under legal disability has not been appointed under the law of the State of residence of the individual, if any other person, in the judgment of the Commissioner, is responsible for the care of such individual, any designation under section 251(c)(2) which may otherwise be made by such individual may be made by such person, any payment under this part which is otherwise payable to such individual may be made to such person, and the payment of an annuity payment under this part to such person bars recovery by any other person.

"VOLUNTARY INVESTMENT FUND

"SEC. 255. (a) ESTABLISHMENT.—There is established and maintained in the Treasury of the United States a Voluntary Investment Fund in the same manner as the Thrift Savings Fund under sections 8437, 8438, and 8439 of title 5, United States Code.

"(b) VOLUNTARY INVESTMENT FUND BOARD.—

"(1) IN GENERAL.—There is established and operated in the Social Security Administration a Voluntary Investment Fund Board in the same manner as the Federal Retirement Thrift Investment

Board under subchapter VII of chapter 84 of title 5, United States Code.

"(2) SPECIFIC INVESTMENT DUTIES.—The Voluntary Investment Fund shall be managed by the Voluntary Investment Fund Board in the same manner as the Thrift Savings Fund is managed under subchapter VIII of chapter 84 of title 5, United States Code.".

(2) EXEMPTION FROM ERISA REQUIREMENTS.—Section 4(b) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1003(b)) is amended—

(A) in paragraph (4), by striking "or";

(B) in paragraph (5), by striking the period and inserting "; or"; and

(C) by inserting after paragraph (5) the following:

"(6) such plan is a voluntary investment account payroll deduction plan established under part B of title II of the Social Security Act.".

(3) EFFECTIVE DATE AND NOTICE REQUIREMENTS.—

(A) EFFECTIVE DATE.—The amendments made by this subsection (and any voluntary investment account payroll deduction plan re-

quired thereunder) apply with respect to wages paid after December 31, 2001, for pay periods beginning after such date and self-employment income for taxable years beginning after such date.

(B) NOTICE REQUIREMENTS.—

(i) IN GENERAL.—Not later than October 1, 2001, the Commissioner of Social Security shall—

(I) send to the last known address of each eligible individual a description of the program established by the amendments made by this subsection, which shall be written in the form of a pamphlet in language which may be readily understood by the average worker,

(II) provide for toll-free access by telephone from all localities in the United States and access by the Internet to the Social Security Administration through which individuals may obtain information and answers to questions regarding such program, and

(III) provide information to the media in all localities of the United States about such program and such toll-free access by telephone and access by Internet.

(ii) ELIGIBLE INDIVIDUAL.—For purposes of this subparagraph, the term "eligible individual" means an individual who, as of the date of the pamphlet sent pursuant to clause (i), is indicated within the records of the Social Security Administration as being credited with 1 or more quarters of coverage under section 213 of the Social Security Act (42 U.S.C. 413).

(iii) MATTERS TO BE INCLUDED.—The Commissioner shall include with the pamphlet sent to each eligible individual pursuant to clause (i)—

(I) a statement of the number of quarters of coverage indicated in the records of the Social Security Administration as of the date of the description as credited to such individual under section 213 of such Act and the

date as of which such records may be considered accurate, and

(II) the number for toll-free access by telephone established by the Commissioner pursuant to clause (i).

(b) CONFORMING AMENDMENTS TO PAYROLL TAX PROVISIONS.—

(1) EMPLOYEES VOLUNTARY INVESTMENT CONTRIBUTIONS.—Section 3101(a) of the Internal Revenue Code of 1986 (relating to tax on employees), as amended by section 2(a)(1), is amended by adding at the end the following:

"(3) VOLUNTARY INVESTMENT ACCOUNT CONTRIBUTION.—In the case of an electing employee (as defined in section 254(c)(2) of the Social Security Act), in addition to other taxes, there is hereby imposed on the income of such employee a voluntary investment account contribution equal to 1 percent of the wages (as so defined) received by him with respect to employment (as so defined).".

(2) EMPLOYERS MATCHING CONTRIBUTIONS.—Section 3111(a) of such Code (relating to tax on employers), as amended by section 2(a)(2), is amended by adding at the end the following:

"(3) MATCHING CONTRIBUTION TO EMPLOYEE VOLUNTARY INVESTMENT ACCOUNT CONTRIBUTION.—In the case of an employer having in his employ an electing employee (as defined in section 254(c)(2) of the Social Security Act), in addition to other taxes, there is hereby imposed on such employer a voluntary investment account contribution equal to 1 percent of the wages (as so defined) paid by him with respect to employment (as so defined) of such employee.".

(3) SELF-EMPLOYMENT VOLUNTARY INVESTMENT ACCOUNT CONTRIBUTIONS.—Section 1401(a) of such Code (relating to tax on self-employment income), as amended by section 2(a)(3), is amended by adding at the end the following:

"(3) VOLUNTARY INVESTMENT ACCOUNT CONTRIBUTION.—In the case of an electing self-employed individual (as defined in section 254(c)(3) of the Social Security Act), in addition to other taxes, there is hereby imposed for each taxable year, on the self-employment income of such individual, a voluntary investment account contribution equal to 2 percent of the amount of the self-employment income for such taxable year.".

(4) EFFECTIVE DATES.—

(A) EMPLOYEES AND EMPLOYERS.—The amendments made by paragraphs (1) and (2) apply to remuneration paid after December 31, 2001.

(B) SELF-EMPLOYED INDIVIDUALS.—The amendment made by paragraph (3) applies to taxable years beginning after December 31, 2001.

SEC. 4. INCREASE OF SOCIAL SECURITY WAGE BASE.

(a) IN GENERAL.—Section 230 of the Social Security Act (42 U.S.C. 430) is amended—

(1) in subsection (b)—

(A) in paragraph (1), by striking "$60,600" and inserting "$99,900"; and

(B) in paragraph (2), by striking "1992" and inserting "2002"; and

(2) in subsection (c)—

(A) by striking "(1)" and all that follows through "$29,700." and inserting "the 'contribution and benefit base' with respect to remuneration paid (and taxable years beginning)—

"(1) in 2002 shall be $87,000,

"(2) in 2003 shall be $94,000, and

"(3) in 2004 shall be $99,900."; and

(B) by striking "specified in clause (2) of the preceding sentence" and inserting "specified in the preceding sentence".

(b) EFFECTIVE DATE.—The amendments made by this section take effect on January 1, 2002.

SEC. 5. COST-OF-LIVING ADJUSTMENTS.

(a) COST-OF-LIVING BOARD.—Title XI of the Social Security Act (42 U.S.C. 1301 et seq.) is amended by adding at the end the following:

"PART D—COST-OF-LIVING ADJUSTMENTS

"DETERMINATION OF INFLATION ADJUSTMENT

"SEC. 1180. (a) MODIFICATION OF COST-OF-LIVING ADJUSTMENT.—

"(1) IN GENERAL.—Notwithstanding any other provision of law, any cost-of-living adjustment described in subsection (e) shall be reduced by the applicable percentage point.

"(2) APPLICABLE PERCENTAGE POINT.—In this section, the term 'applicable percentage point' means—

"(A) except as provided in subparagraph (B), 1 percentage point; or

"(B) the applicable percentage point adopted by the Cost-of-Living Board under subsection (b) for the calendar year.

"(b) COST-OF-LIVING BOARD DETERMINATION.—

"(1) IN GENERAL.—The Cost-of-Living Board established under section 1181 shall for each calendar year after 1999 determine if a new applicable percentage point is necessary to replace the applicable percentage point described in subsection (a)(2)(A) to ensure an accurate cost-of-living adjustment which shall apply to any cost-of-living adjustment taking effect during such year.

"(2) ADOPTION OR REJECTION OF NEW APPLICABLE PERCENTAGE POINT.—

"(A) ADOPTION.—

"(i) IN GENERAL.—If the Cost-of-Living Board adopts by majority vote a new applicable percentage point under paragraph (1), then, for purposes of subsection (a)(1), the new applicable percentage point shall remain in effect during the following calendar year.

"(ii) APPROPRIATE ADJUSTMENTS.—The Cost-of-Living Board shall make appropriate adjustments to the applicable percentage point applied to any cost-of-living adjustment if—

"(I) the period during which the change in the cost-of-living is measured for such adjustment is different than the period used by the Cost-of-Living Board; or

"(II) the adjustment is based on a component of an index rather than the entire index.

"(B) REJECTION.—If the Cost-of-Living Board fails by majority vote to adopt a new applicable percentage point under paragraph (1) for any calendar year, then the applicable percentage point for such calendar year shall be the applicable percentage point described in subsection (a)(2)(A).

"(c) REPORT.—Not later than November 1 of each calendar year, the Cost-of-Living Board shall submit a report to the President and Congress containing a detailed statement with respect to the new applicable percentage point (if any) agreed to by the Board under subsection (b).

"(d) JUDICIAL REVIEW.—Any determination by the Cost-of Living Board under subsection (b) shall not be subject to judicial review.

"(e) COST-OF-LIVING ADJUSTMENT DESCRIBED.—A cost-of-living adjustment described in this subsection is any cost-of-living adjustment for a calendar year after 1999 determined by reference to a percentage change in a consumer price index or any component thereof (as published by the Bureau of Labor Statistics of the Department of Labor and determined without regard to this section) and used in any of the following:

"(1) The Internal Revenue Code of 1986.

"(2) Titles II, XVIII, and XIX of this Act.

"(3) Any other Federal program (not including programs under title XVI of this Act).

"COST-OF-LIVING BOARD

"SEC. 1181. (a) ESTABLISHMENT OF BOARD.—

"(1) ESTABLISHMENT.—There is established a board to be known as the Cost-of-Living Board (in this section referred to as the 'Board').

"(2) MEMBERSHIP.—

"(A) COMPOSITION.—The Board shall be composed of 5 members of whom—

"(i) 1 shall be the Chairman of the Board of Governors of the Federal Reserve System;

"(ii) 1 shall be the Chairman of the President's Council of Economic Advisers; and

"(iii) 3 shall be appointed by the President, by and with the advice and consent of the Senate.

The President shall consult with the leadership of the House of Representatives and the Senate in the appointment of the Board members under clause (iii).

"(B) EXPERTISE.—The members of the Board appointed under subparagraph (A)(iii) shall be experts in the field of economics and should be familiar with the issues related to the calculation of changes in the cost of living. In appointing members under subparagraph (A)(iii), the President shall consider appointing—

"(i) former members of the President's Council of Economic Advisers;

"(ii) former Treasury department officials;

"(iii) former members of the Board of Governors of the Federal Reserve System;

"(iv) other individuals with relevant prior government experience in positions requiring appointment by the President and Senate confirmation; and

"(v) academic experts in the field of price statistics.

"(C) DATE.—

"(i) NOMINATIONS.—Not later than 30 days after the date of enactment of the Social Security Solvency Act of 1999, the President shall submit the nominations of the members of the Board described in subparagraph (A)(iii) to the Senate.

"(ii) SENATE ACTION.—Not later than 60 days after the Senate receives the nominations under clause (i), the Senate shall vote on confirmation of the nominations.

"(3) TERMS AND VACANCIES.—

"(A) TERMS.—A member of the Board appointed under paragraph (2)(A)(iii) shall be appointed for a term of 5 years, except that of the members first appointed under that paragraph—

"(i) 1 member shall be appointed for a term of 1 year;

"(ii) 1 member shall be appointed for a term of 3 years; and

"(iii) 1 member shall be appointed for a term of 5 years.

"(B) VACANCIES.—

"(i) IN GENERAL.—A vacancy on the Board shall be filled in the manner in which the original appointment was made and shall be subject to any conditions which applied with respect to the original appointment.

"(ii) FILLING UNEXPIRED TERM.—An individual chosen to fill a vacancy shall be appointed for the unexpired term of the member replaced.

"(C) EXPIRATION OF TERMS.—The term of any member appointed under paragraph (2)(A)(iii) shall not expire before the date on which the member's successor takes office.

"(4) INITIAL MEETING.—Not later than 30 days after the date on which all members of the Board have been appointed, the Board shall hold its first meeting. Subsequent meetings shall be determined by the Board by majority vote.

"(5) OPEN MEETINGS.—Notwithstanding section 552b of title 5, United States Code, or section 10 of the Federal Advisory Committee Act (5 U.S.C.

App.), the Board may, by majority vote, close any meeting of the Board to the public otherwise required to be open under that section. The Board shall make the records of any such closed meeting available to the public not later than 30 days of that meeting.

"(6) QUORUM.—A majority of the members of the Board shall constitute a quorum, but a lesser number of members may hold hearings.

"(7) CHAIRPERSON AND VICE CHAIRPERSON.—The Board shall select a Chairperson and Vice Chairperson from among the members appointed under paragraph (2)(A)(iii).

"(b) POWERS OF THE BOARD.—

"(1) HEARINGS.—The Board may hold such hearings, sit and act at such times and places, take such testimony, and receive such evidence as the Board considers advisable to carry out the purposes of this part.

"(2) INFORMATION FROM FEDERAL AGENCIES.—The Board may secure directly from any Federal department or agency such information as the Board considers necessary to carry out the provisions of this part, including the published and unpublished data and analytical products of the Bu-

reau of Labor Statistics. Upon request of the Chairperson of the Board, the head of such department or agency shall furnish such information to the Board.

"(3) POSTAL SERVICES.—The Board may use the United States mails in the same manner and under the same conditions as other departments and agencies of the Federal Government.

"(4) GIFTS.—The Board may accept, use, and dispose of gifts or donations of services or property.

"(c) BOARD PERSONNEL MATTERS.—

"(1) COMPENSATION OF MEMBERS.—Each member of the Board who is not otherwise an officer or employee of the Federal Government shall be compensated at a rate equal to the daily equivalent of the annual rate of basic pay prescribed for level III of the Executive Schedule under section 5315 of title 5, United States Code, for each day (including travel time) during which such member is engaged in the performance of the duties of the Board. All members of the Board who otherwise are officers or employees of the United States shall serve without compensation in addition to that received for their services as officers or employees of the United States.

"(2) TRAVEL EXPENSES.—The members of the Board shall be allowed travel expenses, including per diem in lieu of subsistence, at rates authorized for employees of agencies under subchapter I of chapter 57 of title 5, United States Code, while away from their homes or regular places of business in the performance of services for the Board.

"(3) STAFF.—

"(A) IN GENERAL.—The Chairperson of the Board may, without regard to the civil service laws and regulations, appoint and terminate an executive director and such other additional personnel as may be necessary to enable the Board to perform its duties. The employment of an executive director shall be subject to confirmation by the Board.

"(B) COMPENSATION.—The Chairperson of the Board may fix the compensation of the executive director and other personnel without regard to the provisions of chapter 51 and subchapter III of chapter 53 of title 5, United States Code, relating to classification of positions and General Schedule pay rates, except that the rate of pay for the executive director and other personnel may not exceed the rate

payable for level IV of the Executive Schedule under section 5316 of such title.

"(4) DETAIL OF GOVERNMENT EMPLOYEES.—Any Federal Government employee may be detailed to the Board without additional reimbursement (other than the employee's regular compensation), and such detail shall be without interruption or loss of civil service status or privilege.

"(5) PROCUREMENT OF TEMPORARY AND INTERMITTENT SERVICES.—The Chairperson of the Board may procure temporary and intermittent services under section 3109(b) of title 5, United States Code, at rates for individuals which do not exceed the daily equivalent of the annual rate of basic pay prescribed for level V of the Executive Schedule under section 5316 of such title.

"(d) TERMINATION.—Section 14 of the Federal Advisory Committee Act (5 U.S.C. App.) shall not apply to the Board.

"(e) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to the Board such sums as are necessary to carry out the purposes of this part.".

(c) TERMINATION OF WAGE INDEX ADJUSTMENT.—Section 215(i)(1)(C) of the Social Security Act (42 U.S.C. 415(i)(1)(C)) is amended—

(1) in clause (i)—

(A) by inserting "and before 2000" after "after 1988"; and

(B) by inserting ", or in any calendar year after 1999, the CPI increase percentage"; and

(2) in clause (ii), by inserting "and before 2000" after "after 1988".

SEC. 6. TAX TREATMENT OF SOCIAL SECURITY PAYMENTS.

(a) IN GENERAL.—Section 86(a) of the Internal Revenue Code of 1986 (relating to social security and tier 1 railroad retirement benefits) is amended to read as follows:

"(a) INCOME INCLUSION.—

"(1) GENERAL RULE.—Notwithstanding section 207 of the Social Security Act, social security benefits shall be included in the gross income of a taxpayer for any taxable year in the manner provided under section 72.

"(2) TRANSITION RULES.—

"(A) IN GENERAL.—Notwithstanding paragraph (1), with respect to any taxable year beginning in 2000, 2001, 2002, or 2003, gross income of the taxpayer shall include social security benefits in an amount equal to the greater of—

"(i) the applicable percentage of the amount which would have been included under paragraph (1) for such year, or

"(ii) the amount which would have been included under this section for such year if the amendments made by section 6 of the Social Security Solvency Act of 1999 had not been enacted.

"(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A)(i), the applicable percentage for any taxable year shall be determined in accordance with the following table:

"In the case of any taxable year beginning in—	**The applicable percentage is:**
2000	20
2001	40
2002	60
2003	80.".

(b) CONFORMING AMENDMENTS.—Section 86 of the Internal Revenue Code of 1986 is amended by striking subsections (b), (c), and (e) and by redesignating subsections (d) and (f) as subsections (b) and (c), respectively.

(c) TRANSFERS TO TRUST FUNDS.—Paragraph (1)(A) of section 121(e) of the Social Security Amendments of 1983, as amended by section 13215(c)(1) of the Omnibus Budget Reconciliation Act of 1993, is amended by striking "1993." and inserting "1993, plus (iii) the

amounts equivalent to the aggregate increase in tax liabilities under chapter 1 of the Internal Revenue Code of 1986 which is attributable to the amendments to section 86 of such Code made by section 6 of the Social Security Solvency Act of 1999.".

(d) EFFECTIVE DATE.—The amendments made by this section apply to taxable years ending after December 31, 1999.

SEC. 7. COVERAGE OF NEWLY HIRED STATE AND LOCAL EMPLOYEES.

(a) AMENDMENTS TO THE SOCIAL SECURITY ACT.—

(1) IN GENERAL.—Paragraph (7) of section 210(a) of the Social Security Act (42 U.S.C. 410(a)(7)) is amended to read as follows:

"(7) Excluded State or local government employment (as defined in subsection (s));".

(2) EXCLUDED STATE OR LOCAL GOVERNMENT EMPLOYMENT.—

(A) IN GENERAL.—Section 210 of such Act (42 U.S.C. 410) is amended by adding at the end the following new subsection:

"Excluded State or Local Government Employment

"(s)(1) IN GENERAL.—The term 'excluded State or local government employment' means any service performed in the employ of a State, of any political subdivi-

sion thereof, or of any instrumentality of any one or more of the foregoing which is wholly owned thereby, if—

"(A)(i) such service would be excluded from the term 'employment' for purposes of this title if the preceding provisions of this section as in effect on December 31, 2001, had remained in effect, and (ii) the requirements of paragraph (2) are met with respect to such service, or

"(B) the requirements of paragraph (3) are met with respect to such service.

"(2) EXCEPTION FOR CURRENT EMPLOYMENT WHICH CONTINUES.—

"(A) IN GENERAL.—The requirements of this paragraph are met with respect to service for any employer if—

"(i) such service is performed by an individual—

"(I) who was performing substantial and regular service for remuneration for that employer before January 1, 2002,

"(II) who is a bona fide employee of that employer on December 31, 2001, and

"(III) whose employment relationship with that employer was not entered into

for purposes of meeting the requirements of this subparagraph, and

"(ii) the employment relationship with that employer has not been terminated after December 31, 2001.

"(B) TREATMENT OF MULTIPLE AGENCIES AND INSTRUMENTALITIES.—For purposes of subparagraph (A), under regulations (consistent with regulations established under section 3121(t)(2)(B) of the Internal Revenue Code of 1986)—

"(i) all agencies and instrumentalities of a State (as defined in section 218(b)) or of the District of Columbia shall be treated as a single employer, and

"(ii) all agencies and instrumentalities of a political subdivision of a State (as so defined) shall be treated as a single employer and shall not be treated as described in clause (i).

"(3) EXCEPTION FOR CERTAIN SERVICES.—

"(A) IN GENERAL.—The requirements of this paragraph are met with respect to service if such service is performed—

"(i) by an individual who is employed by a State or political subdivision thereof to relieve such individual from unemployment,

"(ii) in a hospital, home, or other institution by a patient or inmate thereof as an employee of a State or political subdivision thereof or of the District of Columbia,

"(iii) by an individual, as an employee of a State or political subdivision thereof or of the District of Columbia, serving on a temporary basis in case of fire, storm, snow, earthquake, flood, or other similar emergency,

"(iv) by any individual as an employee included under section 5351(2) of title 5, United States Code (relating to certain interns, student nurses, and other student employees of hospitals of the District of Columbia Government), other than as a medical or dental intern or a medical or dental resident in training,

"(v) by an election official or election worker if the remuneration paid in a calendar year for such service is less than $1,000 with respect to service performed during 2002, and the adjusted amount determined under subparagraph (C) for any subsequent year with respect to service performed during such subsequent year, except to the extent that service by such election official or election worker is in-

cluded in employment under an agreement under section 218, or

"(vi) by an employee in a position compensated solely on a fee basis which is treated pursuant to section 211(c)(2)(E) as a trade or business for purposes of inclusion of such fees in net earnings from self-employment.

"(B) DEFINITIONS.—As used in this paragraph, the terms 'State' and 'political subdivision' have the meanings given those terms in section 218(b).

"(C) ADJUSTMENTS TO DOLLAR AMOUNT FOR ELECTION OFFICIALS AND ELECTION WORKERS.—For each year after 2002, the Secretary shall adjust the amount referred to in subparagraph (A)(v) at the same time and in the same manner as is provided under section 215(a)(1)(B)(ii) with respect to the amounts referred to in section 215(a)(1)(B)(i), except that—

"(i) for purposes of this subparagraph, 1999 shall be substituted for the calendar year referred to in section 215(a)(1)(B)(ii)(II), and

"(ii) such amount as so adjusted, if not a multiple of $50, shall be rounded to the nearest multiple of $50.

The Commissioner of Social Security shall determine and publish in the Federal Register each adjusted amount determined under this subparagraph not later than November 1 preceding the year for which the adjustment is made.".

(B) CONFORMING AMENDMENTS.—

(i) Subsection (k) of section 210 of such Act (42 U.S.C. 410(k)) (relating to covered transportation service) is repealed.

(ii) Section 210(p) of such Act (42 U.S.C. 410(p)) is amended—

(I) in paragraph (2), by striking "service is performed" and all that follows and inserting "service is service described in subsection (s)(3)(A).";

and

(II) in paragraph (3)(A), by inserting "under subsection (a)(7) as in effect on December 31, 2001" after "section".

(iii) Section 218(c)(6) of such Act (42 U.S.C. 418(c)(6)) is amended—

(I) by striking subparagraph (C);

(II) by redesignating subparagraphs (D) and (E) as subparagraphs (C) and (D), respectively; and

(III) by striking subparagraph (F) and inserting the following:

"(E) service which is included as employment under section 210(a)."

(b) AMENDMENTS TO THE INTERNAL REVENUE CODE OF 1986.—

(1) IN GENERAL.—Paragraph (7) of section 3121(b) of the Internal Revenue Code of 1986 (relating to employment) is amended to read as follows:

"(7) excluded State or local government employment (as defined in subsection (t));".

(2) EXCLUDED STATE OR LOCAL GOVERNMENT EMPLOYMENT.—Section 3121 of such Code is amended by inserting after subsection (s) the following new subsection:

"(t) EXCLUDED STATE OR LOCAL GOVERNMENT EMPLOYMENT.—

"(1) IN GENERAL.—For purposes of this chapter, the term 'excluded State or local government employment' means any service performed in the employ of a State, of any political subdivision there-

of, or of any instrumentality of any one or more of the foregoing which is wholly owned thereby, if—

"(A)(i) such service would be excluded from the term 'employment' for purposes of this chapter if the provisions of subsection (b)(7) as in effect on December 31, 2001, had remained in effect, and (ii) the requirements of paragraph (2) are met with respect to such service, or

"(B) the requirements of paragraph (3) are met with respect to such service.

"(2) EXCEPTION FOR CURRENT EMPLOYMENT WHICH CONTINUES.—

"(A) IN GENERAL.—The requirements of this paragraph are met with respect to service for any employer if—

"(i) such service is performed by an individual—

"(I) who was performing substantial and regular service for remuneration for that employer before January 1, 2002,

"(II) who is a bona fide employee of that employer on December 31, 2001, and

"(III) whose employment relationship with that employer was not entered into for purposes of meeting the requirements of this subparagraph, and

"(ii) the employment relationship with that employer has not been terminated after December 31, 2001.

"(B) TREATMENT OF MULTIPLE AGENCIES AND INSTRUMENTALITIES.—For purposes of subparagraph (A), under regulations—

"(i) all agencies and instrumentalities of a State (as defined in section 218(b) of the Social Security Act) or of the District of Columbia shall be treated as a single employer, and

"(ii) all agencies and instrumentalities of a political subdivision of a State (as so defined) shall be treated as a single employer and shall not be treated as described in clause (i).

"(3) EXCEPTION FOR CERTAIN SERVICES.—

"(A) IN GENERAL.—The requirements of this paragraph are met with respect to service if such service is performed—

"(i) by an individual who is employed by a State or political subdivision thereof to relieve such individual from unemployment,

"(ii) in a hospital, home, or other institution by a patient or inmate thereof as an employee of a State or political subdivision thereof or of the District of Columbia,

"(iii) by an individual, as an employee of a State or political subdivision thereof or of the District of Columbia, serving on a temporary basis in case of fire, storm, snow, earthquake, flood, or other similar emergency,

"(iv) by any individual as an employee included under section 5351(2) of title 5, United States Code (relating to certain interns, student nurses, and other student employees of hospitals of the District of Columbia Government), other than as a medical or dental intern or a medical or dental resident in training,

"(v) by an election official or election worker if the remuneration paid in a calendar year for such service is less than

$1,000 with respect to service performed during 2002, and the adjusted amount determined under section 210(s)(3)(C) of the Social Security Act for any subsequent year with respect to service performed during such subsequent year, except to the extent that service by such election official or election worker is included in employment under an agreement under section 218 of the Social Security Act, or

"(vi) by an employee in a position compensated solely on a fee basis which is treated pursuant to section 1402(c)(2)(E) as a trade or business for purposes of inclusion of such fees in net earnings from self-employment.

"(B) DEFINITIONS.—As used in this paragraph, the terms 'State' and 'political subdivision' have the meanings given those terms in section 218(b) of the Social Security Act.".

(3) CONFORMING AMENDMENTS.—

(A) Subsection (j) of section 3121 of such Code (relating to covered transportation service) is repealed.

(B) Paragraph (2) of section 3121(u) of such Code (relating to application of hospital insurance tax to Federal, State, and local employment) is amended—

(i) in subparagraph (B), by striking "service is performed" in clause (ii) and all that follows through the end of such subparagraph and inserting "service is service described in subsection (t)(3)(A)."; and

(ii) in subparagraph (C)(i), by inserting "under subsection (b)(7) as in effect on December 31, 2001" after "chapter".

(c) EFFECTIVE DATE.—Except as otherwise provided in this section, the amendments made by this section shall apply with respect to service performed after December 31, 2001.

SEC. 8. INCREASE IN LENGTH OF COMPUTATION PERIOD FROM 35 TO 38 YEARS.

Section 215(b)(2)(B) of the Social Security Act (42 U.S.C. 415(b)(2)) is amended—

(1) in clause (ii), by striking "and" at the end;

(2) in clause (iii)—

(A) by striking "age 62" and inserting "the applicable age"; and

(B) by striking the period at the end and inserting "; and"; and

(3) by adding at the end the following:

"(iv) the term 'applicable age' means with respect to individuals who attain age 62—

"(I) before 2002, age 62;

"(II) in 2002, age 63;

"(III) in 2003, age 64; and

"(IV) after 2003, age 65.".

SEC. 9. MODIFICATION OF PIA FACTORS TO REFLECT CHANGES IN LIFE EXPECTANCY.

(a) MODIFICATION OF PIA FACTORS.—Section 215(a)(1) of the Social Security Act (42 U.S.C. 415(a)(1)(B)) is amended by redesignating subparagraph (D) as subparagraph (F) and by inserting after subparagraph (C) the following:

"(D) For individuals who initially become eligible for old-age insurance benefits in any calendar year after 1999, each of the percentages under clauses (i), (ii), and (iii) of subparagraph (A) shall be multiplied the applicable number of times by .988 (.997, for any calendar year after 2017). For purposes of the preceding sentence, the term 'applicable number of times' means a number equal to the lesser of 66 or the number of years beginning with 2000 and ending with the year of initial eligibility.

"(E) For any individual who initially becomes eligible for disability insurance benefits in any calendar year after 1999, the primary insurance amount for such individual shall be equal to the greater of—

"(i) such amount as determined under this paragraph, or

"(ii) such amount as determined under this paragraph without regard to subparagraph (D) thereof.".

(b) RESTORATION OF NORMAL RETIREMENT AGE AT 65.—

(1) IN GENERAL.—Section 216(l)(1) of the Social Security Act (42 U.S.C. 416(l)(1)) is amended to read as follows:

"(l)(1) The term 'retirement age' means 65 years of age.".

(2) CONFORMING AMENDMENTS.—

(A) Section 216(l) of the Social Security Act (42 U.S.C. 416(l)) is amended by striking paragraph (3).

(B) Section 202(q) of such Act (42 U.S.C. 402(q)) is amended—

(i) in paragraph (1), by striking "Subject to paragraph (9), if" and inserting "If"; and

(ii) by striking paragraph (9).

(c) STUDY OF THE EFFECT OF INCREASES IN LIFE EXPECTANCY.—

(1) STUDY PLAN.—Not later than February 15, 2001, the Commissioner of Social Security shall submit to Congress a detailed study plan for evaluating the effects of increases in life expectancy on the expected level of retirement income from social security, pensions, and other sources. The study plan shall include a description of the methodology, data, and funding that will be required in order to provide to Congress not later than February 15, 2006—

(A) an evaluation of trends in mortality and their relationship to trends in health status, among individuals approaching eligibility for social security retirement benefits;

(B) an evaluation of trends in labor force participation among individuals approaching eligibility for social security retirement benefits and among individuals receiving retirement benefits, and of the factors that influence the choice between retirement and participation in the labor force;

(C) an evaluation of changes, if any, in the social security disability program that would re-

duce the impact of changes in the retirement income of workers in poor health or physically demanding occupations;

(D) an evaluation of the methodology used to develop projections for trends in mortality, health status, and labor force participation among individuals approaching eligibility for social security retirement benefits and among individuals receiving retirement benefits; and

(E) an evaluation of such other matters as the Commissioner deems appropriate for evaluating the effects of increases in life expectancy.

(2) REPORT ON RESULTS OF STUDY.—Not later than February 15, 2006, the Commissioner of Social Security shall provide to Congress an evaluation of the implications of the trends studied under paragraph (1), along with recommendations, if any, of the extent to which the conclusions of such evaluations indicate that projected increases in life expectancy require modification in the social security disability program and other income support programs.

SEC. 10. ELIMINATION OF EARNINGS TEST FOR INDIVIDUALS WHO HAVE ATTAINED EARLY RETIREMENT AGE.

(a) IN GENERAL.—Section 203 of the Social Security Act (42 U.S.C. 403) is amended—

(1) in subsection (c)(1), by striking "the age of seventy" and inserting "early retirement age (as defined in section 216(l))";

(2) in paragraphs (1)(A) and (2) of subsection (d), by striking "the age of seventy" each place it appears and inserting "early retirement age (as defined in section 216(l))";

(3) in subsection (f)(1)(B), by striking "was age seventy or over" and inserting "was at or above early retirement age (as defined in section 216(l))";

(4) in subsection (f)(3)—

(A) by striking "33⅓ percent" and all that follows through "any other individual," and inserting "50 percent of such individual's earnings for such year in excess of the product of the exempt amount as determined under paragraph (8),"; and

(B) by striking "age 70" and inserting "early retirement age (as defined in section 216(l))";

(5) in subsection (h)(1)(A), by striking "age 70" each place it appears and inserting "early retirement age (as defined in section 216(l))"; and

(6) in subsection (j)—

(A) in the heading, by striking "Age Seventy" and inserting "Early Retirement Age"; and

(B) by striking "seventy years of age" and inserting "having attained early retirement age (as defined in section 216(l))".

(b) CONFORMING AMENDMENTS ELIMINATING THE SPECIAL EXEMPT AMOUNT FOR INDIVIDUALS WHO HAVE ATTAINED AGE 62.—

(1) UNIFORM EXEMPT AMOUNT.—Section 203(f)(8)(A) of the Social Security Act (42 U.S.C. 403(f)(8)(A)) is amended by striking "the new exempt amounts (separately stated for individuals described in subparagraph (D) and for other individuals) which are to be applicable" and inserting "a new exempt amount which shall be applicable".

(2) CONFORMING AMENDMENTS.—Section 203(f)(8)(B) of the Social Security Act (42 U.S.C. 403(f)(8)(B)) is amended—

(A) in the matter preceding clause (i), by striking "Except" and all that follows through

"whichever" and inserting "The exempt amount which is applicable for each month of a particular taxable year shall be whichever";

(B) in clauses (i) and (ii), by striking "corresponding" each place it appears; and

(C) in the last sentence, by striking "an exempt amount" and inserting "the exempt amount".

(3) REPEAL OF BASIS FOR COMPUTATION OF SPECIAL EXEMPT AMOUNT.—Section 203(f)(8)(D) of the Social Security Act (42 U.S.C. 403(f)(8)(D)) is repealed.

(c) ADDITIONAL CONFORMING AMENDMENTS.—

(1) ELIMINATION OF REDUNDANT REFERENCES TO RETIREMENT AGE.—Section 203 of the Social Security Act (42 U.S.C. 403) is amended—

(A) in subsection (c), in the last sentence, by striking "nor shall any deduction" and all that follows and inserting "nor shall any deduction be made under this subsection from any widow's or widower's insurance benefit if the widow, surviving divorced wife, widower, or surviving divorced husband involved became entitled to such benefit prior to attaining age 60."; and

(B) in subsection (f)(1), by striking clause (D) and inserting the following: "(D) for which such individual is entitled to widow's or widower's insurance benefits if such individual became so entitled prior to attaining age 60,".

(2) CONFORMING AMENDMENT TO PROVISIONS FOR DETERMINING AMOUNT OF INCREASE ON ACCOUNT OF DELAYED RETIREMENT.—Section 202(w)(2)(B)(ii) of the Social Security Act (42 U.S.C. 402(w)(2)(B)(ii)) is amended—

(A) by striking "either"; and

(B) by striking "or suffered deductions under section 203(b) or 203(c) in amounts equal to the amount of such benefit".

(3) PROVISIONS RELATING TO EARNINGS TAKEN INTO ACCOUNT IN DETERMINING SUBSTANTIAL GAINFUL ACTIVITY OF BLIND INDIVIDUALS.—The second sentence of section 223(d)(4) of such Act (42 U.S.C. 423(d)(4)) is amended by striking "if section 102 of the Senior Citizens' Right to Work Act of 1996 had not been enacted" and inserting the following: "if the amendments to section 203 made by section 102 of the Senior Citizens' Right to Work Act of 1996 and by the Social Security Solvency Act of 1999 had not been enacted".

(d) STUDY OF THE EFFECT OF TAKING EARNINGS INTO ACCOUNT IN DETERMINING SUBSTANTIAL GAINFUL ACTIVITY OF DISABLED INDIVIDUALS.—

(1) IN GENERAL.—Not later than February 15, 2001, the Commissioner of Social Security shall conduct a study on the effect that taking earnings into account in determining substantial gainful activity of individuals receiving disability insurance benefits has on the incentive for such individuals to work and submit to Congress a report on the study.

(2) CONTENTS OF STUDY.—The study conducted under paragraph (1) shall include the evaluation of—

(A) the effect of the current limit on earnings on the incentive for individuals receiving disability insurance benefits to work;

(B) the effect of increasing the earnings limit or changing the manner in which disability insurance benefits are reduced or terminated as a result of substantial gainful activity (including reducing the benefits gradually when the earnings limit is exceeded) on—

(i) the incentive to work; and

(ii) the financial status of the Federal Disability Insurance Trust Fund;

(C) the effect of extending eligibility for the Medicare program to individuals during the period in which disability insurance benefits of the individual are gradually reduced as a result of substantial gainful activity and extending such eligibility for a fixed period of time after the benefits are terminated on—

(i) the incentive to work; and

(ii) the financial status of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund; and

(D) the relationship between the effect of substantial gainful activity limits on blind individuals receiving disability insurance benefits and other individuals receiving disability insurance benefits.

(3) CONSULTATION.—The analysis under paragraph (2)(C) shall be done in consultation with the Administrator of the Health Care Financing Administration.

(e) EFFECTIVE DATE.—The amendments and repeals made by subsections (a), (b), and (c) shall apply with respect to taxable years ending after December 31, 2002.

SEC. 11. SOCIAL SECURITY KIDSAVE ACCOUNTS.

Title II of the Social Security Act (42 U.S.C. 401 et seq.), as amended by section 3(a), is amended by adding at the end the following:

"PART C—KIDSAVE ACCOUNTS

"KIDSAVE ACCOUNTS

"SEC. 261. (a) ESTABLISHMENT.—The Commissioner of Social Security shall establish in the name of each individual born on or after January 1, 1995, a KidSave Account described in paragraph (1) of section 262(a), upon the later of—

"(1) the date of enactment of this part, or

"(2) the date of the issuance of a Social Security account number under section 205(c)(2) to such individual.

The KidSave Account shall be identified to the account holder by means of the account holder's Social Security account number.

"(b) CONTRIBUTIONS.—

"(1) IN GENERAL.—There are appropriated such sums as are necessary in order for the Secretary of the Treasury to transfer from the general fund of the Treasury for crediting by the Commissioner to each account holder's KidSave Account under subsection (a), an amount equal to the sum of—

"(A) in the case of any individual born on or after January 1, 2000, $1000.00, on the date of the establishment of such individual's KidSave Account, and

"(B) in the case of any individual born on or after January 1, 1995, $500.00, on the 1st, 2nd, 3rd, 4th, and 5th birthdays of such individual occurring on or after January 1, 2000.

"(2) ADJUSTMENT FOR INFLATION.—For any calendar year after 2009, each of the dollar amounts under paragraph (1) shall be increased by the cost-of-living adjustment determined under section 215(i) for the calendar year.

"(c) DESIGNATIONS REGARDING KIDSAVE ACCOUNTS.—

"(1) INITIAL DESIGNATIONS OF INVESTMENT VEHICLE.—A person described in subsection (d) shall, on behalf of the individual described in subsection (a), designate the investment vehicle for the KidSave Account to which contributions on behalf of such individual are to be deposited. Such designation shall be made on the application for such individual's Social Security account number.

"(2) CHANGES IN INVESTMENT VEHICLES OR TYPES OF KIDSAVE ACCOUNTS.—The Commissioner

shall by regulation provide the time and manner by which—

"(A) an individual or a person described in subsection (d) on behalf of such individual may change 1 or more investment vehicles for a KidSave Account described in paragraph (1) of section 262(a), and

"(B) an individual or a person described in subsection (d) on behalf of such individual may designate a KidSave Account described in paragraph (2) of section 262(a) or a voluntary investment account described in paragraph (1) or (2) of section 254(a) of the individual to which all or a portion of the amounts in an existing KidSave Account described in paragraph (1) of section 262(a) are to be transferred.

"(d) TREATMENT OF MINORS AND INCOMPETENT INDIVIDUALS.—Any designation under subsection (c) to be made by a minor, or an individual mentally incompetent or under other legal disability, may be made by the person who is constituted guardian or other fiduciary by the law of the State of residence of the individual or is otherwise legally vested with the care of the individual or his estate. Payment under this part due a minor, or an individual mentally incompetent or under other legal disability, may

be made to the person who is constituted guardian or other fiduciary by the law of the State of residence of the claimant or is otherwise legally vested with the care of the claimant or his estate. In any case in which a guardian or other fiduciary of the individual under legal disability has not been appointed under the law of the State of residence of the individual, if any other person, in the judgment of the Commissioner, is responsible for the care of such individual, any designation under subsection (c) which may otherwise be made by such individual may be made by such person, any payment under this part which is otherwise payable to such individual may be made to such person, and the payment of an annuity payment under this part to such person bars recovery by any other person.

"DEFINITIONS AND SPECIAL RULES

"SEC. 262. (a) KIDSAVE ACCOUNTS.—For purposes of this part—

"(1) a KidSave Account described in this paragraph is a KidSave Account in the Voluntary Investment Fund (established under section 255(a)), and

"(2) a Kidsave Account described in this paragraph is any individual retirement plan (as defined in section 7701(a)(37) of the Internal Revenue Code of 1986), other than a Roth IRA (as defined in section 408A(b) of such Code), which is designated by

an individual as a KidSave Account (in such manner as the Secretary of the Treasury may prescribe) and which is administered or issued by a bank or other person referred to in section 408(a)(2) of such Code.

"(b) TREATMENT OF ACCOUNTS.—

"(1) IN GENERAL.—Except as provided in paragraph (2)—

"(A) any KidSave Account described in subsection (a)(1) shall be treated in the same manner as an account in the Thrift Savings Fund under subchapter III of chapter 84 of title 5, United States Code, and

"(B) any KidSave Account described in subsection (a)(2) shall be treated in the same manner as an individual retirement plan (as so defined).

"(2) EXCEPTIONS.—

"(A) CONTRIBUTION LIMIT.—The aggregate amount of contributions for any taxable year to all KidSave Accounts of an individual shall not exceed the contribution made pursuant to section 261(b) for such year on behalf of such individual.

"(B) ROLLOVER CONTRIBUTIONS.—No rollover contribution may be made to a KidSave

Account unless it is from another KidSave Account. A rollover described in the preceding sentence shall not be taken into account for purposes of subparagraph (A).

"(C) DISTRIBUTIONS.—Notwithstanding any other provision of law, distributions may only be made from a KidSave Account of an individual on or after the earlier of—

"(i) the date on which the individual begins receiving benefits under this title, or

"(ii) the date of the individual's death.".

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